
Presentation to Monica Desai on
**Proposed Video Relay Service
Reimbursement Rate 2005-06**

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Ronald E. Obray, President, Hands On Video Relay
Services, Inc.

Dan Luis, CEO, Go America, Inc.

George L. Lyon, Jr., Lukas Nace Gutierrez & Sachs,
Chartered

Hands on Video Relay Services, Inc.

- Certified VRS provider under State of Washington's TRS Program
- Contract supplier of VRS to AT&T
- Commenced VRS operation in August of 2002
- Call centers in Vancouver, WA; Rocklin, CA; Oakland, CA; Temecula, CA
- Supplying more than DELETED minutes of VRS per month

Go America

- Focused on serving the needs of the deaf and hard of hearing community through innovative technical solutions
- Operates i711.com IP Relay Service in partnership with Nordia, Inc. See www.i711.com
- Offers wireless TTY calling via various wireless devices
- Announced an investment in Hands On

VRS Community

- Eight VRS providers
- Sprint, Hands On, AT&T, MCI, Communications Access Center, Hamilton Telephone Company, Nordia, Inc., and Sorenson Communications, Inc.
- Approximately 1.8 million minutes of VRS per month (March, 2005) and growing

VRS Rate Setting Mechanism

- FCC sets VRS rate annually pursuant to Rule Section 64.604(c)(5)(E)
- Section 64.604(c)(5)(E) specifies that TRS payments are based on formulas approved by the Commission
- NECA, the TRS fund administrator annually files proposed TRS/VRS rates
- NECA's proposed TRS rates are based on a weighted average of provider's estimated costs

2005-06 VRS Rate Proposal

- Current VRS rate is \$7.596 per minute
- NECA's proposed VRS rate for 2005-06, based on its weighted averaging of provider estimates is \$5.924.
- However, NECA recognizes that this weighted average rate may be problematic

Problems with proposed VRS rate

- Rate is based on the weighted average of seven providers ranging from \$5.347 per minute to \$10.905
- Only one provider's cost estimate is below the average; six providers' costs are above the average
- One provider is driving the rate because of an estimated 66 percent market share

One provider drives the VRS rate

- One provider drives the VRS rate by giving away video-phone devices and restricting their use to only its service
- This provider technically and contractually blocks access to other providers' on its video-phone
- Because this provider blocks access to other providers it has a captive clientele and has wait times in excess of five minutes for an interpreter

NECA Recognized the problem

- Footnote 32 of the NECA rate filing, made on April 25, 2005, notes that:
- VRS cost per minute is driven by cost and demand characteristics of a single provider
- Averaging the costs of the other six providers results in a rate of \$7.061, a difference of \$1.137 from the \$5.924 number
- That provider's cost estimate is more than one standard deviation from the mean

FCC is not required to adopt the NECA recommendation

- No rule or statute specifies any particular method of calculating TRS rates
- The FCC is thus free to examine the rate calculation for anomalies and correct a problematic rate proposal
- The FCC did just that when it reduced the NECA rate recommendation for VRS in June of 2003

Issues relating to the proposed VRS rate

- NECA explains there are open proceedings that may affect the VRS rate
- These include proposals to end or modify the existing answer speed waiver, and the request to require TRS equipment to be interoperable
- NECA, itself, suggests the Commission may wish to explore alternatives to its rate calculation methodology

Issues presented regarding the VRS rate proposal, answer speed

- The \$5.924 VRS rate proposal is not based on a uniform answer speed; it is thus an apples to oranges comparison
- NECA collected data on the answer speed for which various providers costed, but did not believe it was entitled to make any adjustments based on their differing answer speed targets

Issues presented regarding the rate proposal, anticompetitive conduct

- One provider should not be in a position to skew the VRS rate by proposing the bulk of VRS minutes
- The “low cost” provider achieves its low cost in large part by unusually long answer speeds, which directly result from its blocking its video-phone users from accessing other providers
- Driving the rate below cost for all but one providers will result in monopolization of VRS service by the “low cost” provider

Possible alternative rate methodologies

- NECA says excluding the low cost provider from the VRS rate calculation results in a \$7.061 rate
- The Commission could exclude both the low cost and high cost providers, both of which were more than one standard deviation from the mean.
- Setting the VRS rate at the median of cost estimates results in a rate of \$6.644
- Limiting the effect of the low cost provider on the rate to 1/7 results in a rate of \$6.816, 25 percent, \$6.633; 2/7's, \$6.571

Consumers support adoption of alternative rate methodology

- See Comments of Telecommunications For the Deaf, Inc. and Deaf and Hard of Hearing Consumer Advocacy Network, Docket 98-67 (May 13, 2005)
- No one who commented on the VRS rate supported its adoption without modification or subsequent revision

Public overwhelming favors speed of answer and interoperability requirements

- Comments in Dockets 03-123 & 98-67 show overwhelming support from consumers and providers for speed of answer and equipment interoperability requirements
- The only provider opposing both requests is the dominant provider
- All consumer groups and thousands of individual consumer comments support a reasonable answer speed, mandatory VRS, and a requirement that consumer equipment be interoperable with all VRS providers

*Revision of the rate after answer speed
and interoperability decisions will not
prevent the harm the 5.924 rate will cause*

- Consumers will be harmed by lack of adequate service; the dominant provider will still have long wait times and all other providers will lengthen their wait times in response to the lower rate
- Other providers will lose market share because they will have to curtail service quality and hours to stay in business under the lower rate
- The dominate provider will reap windfall profits at the expense of consumer service and the TRS Fund

How to address concerns about Interstate TRS fund size

- Bureau staff have raised the question about effect of alternative rate methodology on the TRS Fund size
- Although the FCC cannot make decisions merely on the basis of the Fund size, it should be concerned to prevent any provider from making windfall profits
- This concern can be addressed by pegging the VRS rate to answer speed performance

Why peg VRS rate to answer speed performance?

- Largest cost of providing VRS is the cost of sign language interpreter force
- A provider with high answer speed has lower unit costs because it employs proportionately a smaller number of interpreters
- Providers with long answer times are unjustly enriched if paid full VRS rate
- TRS Fund is artificially inflated by paying large profits to providers that keep their costs down by extending wait times

Why peg VRS rate to answer speed performance?

- Pegging VRS payment rate to answer speed performance encourages providers to improve answer speed
- Improved answer speed is essential to functional equivalent service
- Slow answer speeds are a danger in emergency and urgent situations where immediate telephone access is required

How the proposal would work

- The FCC would set a VRS payment rate based on one of the alternative proposals
- Full payment would be made if answer speed over the month averaged a minute or less
- For longer monthly average answer speeds, the FCC would order proportionate reductions in the VRS payment rate

An example how the proposal would work

- For example, 97 percent of the VRS rate would be paid for average answer times of 1-2 minutes
- 94 percent of the rate for 2-3 minute average answer times
- 91 percent for 3-4 minute answer times
- 88 percent for 4-5 minute answer times
- 85 percent for 5-10 minute answer times
- 81 percent for 10-15 minute answer times
- 78 percent for 15-20 minute answer times
- 75 percent for answer times in excess of 20 minutes

The FCC could easily implement a VRS rate tied to answer speed

- NECA receives monthly data from providers of their answer speeds now
- Thus NECA could easily calculate a provider's VRS payments without the need to collect more data
- There would be no delay in processing provider payments
- No increased cost in NECA's administration of the TRS Fund

Need for long term solution

- Long term solution to prevent the VRS rate from being skewed by any one provider requires a grade of service (answer speed) comparable with the telephone network as required by Section 225 of the Communications Act, and a prohibition on blocking equipment access to other VRS providers so consumers have free choice of providers

Establish a mandatory minimum answer speed

- Current TRS answer speed requirement is 85 percent of calls answered within 10 seconds
- This standard is waived for VRS until December 2005
- The Commission should set an interim VRS answer speed of 85 percent of calls answered within 30 seconds and adjust that standard as necessary to achieve functional equivalence

Mandate TRS/VRS equipment interoperability

- Lack of interoperability threatens consumer welfare, especially in an emergency or urgent situation
- Blocking access to competing providers violates the *Madison River* precedent concerning VOIP blocking
- Equipment interoperability is necessary to achieve real competition in the VRS market
- Providers should not be able to leverage equipment distribution to achieve market dominance